

**Management Advisory Report: Taxpayers
Continue to Receive Incorrect Answers to
Some Tax Law Questions**

June 2002

Reference Number: 2002-40-113

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

June 26, 2002

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Management Advisory Report - Taxpayers Continue to
Receive Incorrect Answers to Some Tax Law Questions
(Audit # 200240036)

This report presents the results of our review to determine if the Internal Revenue Service (IRS) provides accurate and timely responses to taxpayers' tax law questions. In addition, we assessed whether IRS employees were professional and courteous to Treasury Inspector General for Tax Administration (TIGTA) auditors who made anonymous visits to the Taxpayer Assistance Centers (TACs). We also evaluated the adequacy of accommodations for items such as space, privacy, and cleanliness, and determined if the correct office hours were posted in the TACs.

This review was conducted as a result of an amendment to the Treasury spending bill¹ for Fiscal Year (FY) 2002 proposed by Senator Byron Dorgan, (Democrat-North Dakota), Chairman of the Subcommittee on Treasury and General Government. The amendment requires the TIGTA to conduct visits to all TACs and report to the Congress on whether taxpayers are provided correct and prompt answers to their questions. We will conduct anonymous visits to all TACs over a 2-year period. This is the second in a series of bi-monthly reports that we will issue in response to the amendment to the Treasury spending bill.

During March and April 2002, our auditors made 73 anonymous visits to 37 TACs. The auditors asked 146 tax law questions and determined that IRS employees did not provide correct answers to some tax law questions. For example:²

- Eighty (55 percent) of the 146 questions were answered correctly.

¹ Treasury and General Government Appropriations Act, 2002 H.R. 2590.

² Percentages do not add to 100 percent due to rounding.

- Forty-two (29 percent) of the 146 questions were answered incorrectly.
- Twenty-three (16 percent) of the 146 questions resulted in the IRS employee referring the auditor to IRS publications³ and generally advising the auditor to do his or her own research to find the answer to the question. In two instances, the auditor was referred to the wrong publication.
- One question (1 percent) asked by an auditor was not answered. The employee did not refer the auditor to another employee (in the office or on the telephone).

In addition, we observed the following during our visits to the TACs.

- Office hours posted at 16 (43 percent) of the 37 TACs visited⁴ were not the same as the hours shown on the IRS website.
- Taxpayer privacy was not adequate in 28 (76 percent) of 37 TACs we visited.
- The TACs were clean in 37 (100 percent) of 37 sites we visited.
- The TACs were organized in 35 (95 percent) of 37 sites we visited.
- IRS employees were professional and courteous to the TIGTA auditors in 71 (97 percent) of the 73 visits.
- Wait time for service was 30 minutes or less for 66 (90 percent) of the 73 visits.

We do not make formal recommendations to the IRS in the bi-monthly reports. However, we plan to issue semi-annual trend reports that may include appropriate recommendations to help ensure taxpayers are provided accurate responses to their tax law questions. Our auditors will continue making visits to the TACs throughout Calendar Years 2002 and 2003 and issuing bi-monthly reports on our results.

Management's Response: IRS management stated that they are continuing to work with their employees to improve tax law accuracy and ensure correct hours for the TACs are posted to the IRS website. They recognize the need to improve taxpayer privacy and stated that the estimated funding to renovate is nearly \$100 million. They also pointed out that they are working within the constraints of their current office configurations to protect taxpayer privacy. They have recently instructed their employees to ask taxpayers to write their tax identification numbers down rather than say them aloud.

Management's complete response to the draft report is included as Appendix V.

³ Referring taxpayers to publications is considered incorrect according to IRS Field Assistance management because procedures require that the employee walk the taxpayer through the appropriate section of a publication to assist them in identifying the correct answer.

⁴ In addition, eleven sites did not have hours posted on the IRS website and one site did not have hours posted at the TAC.

Office of Audit Comment:

As with their response to our first in this series of bi-monthly reports, IRS management continues to believe that the statistics cited in our report do not reflect the accuracy of the IRS' answers. Specifically, they do not believe that referrals to publications should be included in computing the accuracy rate. We disagree. As we previously stated, we do not believe that simply referring taxpayers to a publication to do the research themselves ensures a correct answer nor do we believe it qualifies as successful customer service.

Copies of this report are also being sent to the IRS managers who are affected by the report. Please contact me at (202) 622-6510 if you have questions or Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 927-0597.

**Management Advisory Report: Taxpayers Continue to Receive
Incorrect Answers to Some Tax Law Questions**

Table of Contents

Background	Page 1
Taxpayers are Receiving Incorrect Answers to Tax Law Questions.....	Page 3
Accommodations at Taxpayer Assistance Centers Could Be Improved....	Page 5
Auditors Had Positive Experiences When They Visited Taxpayer Assistance Centers.....	Page 6
Appendix I – Detailed Objective, Scope, and Methodology	Page 8
Appendix II – Major Contributors to This Report.....	Page 9
Appendix III – Report Distribution List	Page 10
Appendix IV – States Visited During March and April 2002.....	Page 11
Appendix V – Management’s Response to the Draft Report	Page 12

Management Advisory Report: Taxpayers Continue to Receive Incorrect Answers to Some Tax Law Questions

Background

The Senate Committee on Appropriations was deeply concerned about the findings in a Treasury Inspector General for Tax Administration (TIGTA) audit report on the Internal Revenue Service's (IRS) Taxpayer Assistance Centers (TAC).¹ This report showed that our auditors did not receive accurate or sufficient answers to 73 percent of their tax law questions posed during anonymous visits to the TACs during January and February 2001. Based on the results of this review, Senator Byron Dorgan (Democrat-North Dakota), Chairman of the Subcommittee on Treasury and General Government, proposed an amendment to the Treasury spending bill² for Fiscal Year (FY) 2002. The amendment requires the TIGTA to conduct visits to all TACs and report to the Congress as to whether taxpayers are provided correct and prompt answers to their questions. We will conduct anonymous visits to all TACs over a 2-year period.

The IRS' Field Assistance (FA) office in the Wage and Investment (W&I) Division has overall responsibility for the TACs. The TACs exist primarily to serve taxpayers who choose to seek help from the IRS in person. The IRS employees³ who work in the TACs provide assistance in interpreting tax laws and regulations, preparing some tax returns, resolving inquiries on taxpayer accounts, and providing various other services designed to minimize the burden on taxpayers in satisfying their tax obligations. There are currently no statistics on the percent of time spent by employees in the TACs on the various services detailed above. The FA office is using FY 2002 as a baseline to establish standards and other management information in this area.

¹ *Letter Report: The Internal Revenue Service Continues to Give Incorrect Tax Law Information in Taxpayer Assistance Centers* (Reference Number 2001-40-077, dated May 2001).

² Treasury and General Government Appropriations Act of 2002, Pub. L. No. 107-67.

³ IRS employees who work in the TACs are called Tax Resolution Representatives.

Management Advisory Report: Taxpayers Continue to Receive Incorrect Answers to Some Tax Law Questions

There are 414 TACs located throughout the United States including Washington, D.C. During FY 2001, the TACs served approximately 9.3 million taxpayers.⁴

In addition to the anonymous visits being performed by our auditors, the IRS has hired an outside contractor to anonymously visit its TACs and ask two tax law questions per visit. The contractor visits began in October 2001. The IRS provided the contractor with four questions to ask on the following topics:

- Dependents
- Education Credits
- Earned Income Tax Credit
- Social Security Benefits

Our auditors performing anonymous visits to the TACs also asked two questions during each visit, one of which was a question provided by the IRS to its contractor. The other question asked was selected from those we developed which relate to 18 tax law topics that are within the scope of topics that TAC employees should have been trained to answer. The TIGTA questions were designed to cover a wide range of tax law topics in order to provide an overall assessment on whether taxpayers are receiving correct answers to questions that an individual taxpayer⁵ might ask.

This report is the second in a series of bi-monthly reports that we will issue on the results of our visits to the TACs. The review was conducted in the IRS' Customer Assistance, Relationships, and Education office in the W&I Division in March and April 2002. Our auditors anonymously visited 37 TACs in 10 states and in Washington, D.C. (See Appendix IV for specific states visited).

This review was conducted in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*. Detailed information on our objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

⁴ The IRS provided the number of taxpayers that were served. We did not verify the accuracy of the number.

⁵ Individual taxpayers are non-business taxpayers who file United States Individual Income Tax Returns (Forms 1040, 1040A, or 1040EZ).

Management Advisory Report: Taxpayers Continue to Receive Incorrect Answers to Some Tax Law Questions

Taxpayers are Receiving Incorrect Answers to Tax Law Questions

IRS employees did not always provide correct answers to the tax law questions asked by our auditors. The results for the 146 tax law questions were as follows:⁶

- Eighty (55 percent) of the 146 questions were answered correctly. In 24 of the 80 questions, the IRS employee provided a correct answer without asking all of the required questions outlined in the tax law instructions and publications. This also included 7 questions where the IRS employee provided the correct answer but gave the taxpayer the wrong reason. For example, the IRS employee stated that a nephew could not be claimed as a qualifying child for the earned income credit because a nephew does not meet the relationship test. The correct answer for the scenario our auditors were presenting was that the nephew was not a qualifying child because he did not live with the taxpayer for the entire year. A nephew does meet the relationship test.
- Forty-two (29 percent) of the 146 questions were answered incorrectly. For example, an IRS employee provided an incorrect answer to a question on whether the auditor, as a single taxpayer with a gross income of \$68,530, was eligible to claim a credit for tuition costs while pursuing a Master's degree in 2001. The maximum adjusted income level allowed for this single taxpayer to claim a credit is \$50,000. The IRS employee stated that the auditor qualified for the credit, but the maximum amount was \$1,000.
- Twenty-three (16 percent) of the 146 questions resulted in the IRS employee referring the auditor to IRS publications⁷ and generally advising the auditor to do his or her own research to find the answer to the question. In two instances, the auditor was referred to the wrong publication.

⁶ Percentages do not add to 100 percent due to rounding.

⁷ Referring taxpayers to a publication is considered incorrect according to IRS FA management because their procedures require that the employee guide the taxpayer through the appropriate section of a publication to assist them in identifying the correct answer.

Management Advisory Report: Taxpayers Continue to Receive Incorrect Answers to Some Tax Law Questions

- One question (1 percent) was not answered by the IRS employee. We recorded this response as service denied. The IRS employee told the TIGTA auditor that he or she did not know the answer to the question. The employee did not refer the auditor to another employee (in the office or on the telephone) to obtain an answer.

The tables below provide a complete breakdown of the accuracy of questions answered for the universe as well as for IRS and TIGTA accuracy rates.

IRS Contractor and TIGTA Questions (146 questions asked)					
	Correct	Correct but Incomplete	Incorrect	Ref. to Pub.	Service Denied
Responses	56	24	42	23	1
Percentages	38%	16%	29%	16%	1%

Source: Anonymous visits performed by TIGTA auditors.

IRS Contractor Questions (73 questions asked)					
	Correct	Correct but Incomplete	Incorrect	Ref. to Pub.	Service Denied
Responses	36	9	16	12	0
Percentages⁸	49%	12%	22%	16%	---

Source: Anonymous visits performed by TIGTA auditors.

TIGTA Questions (73 questions asked)					
	Correct	Correct but Incomplete	Incorrect	Ref. to Pub.	Service Denied
Responses	20	15	26	11	1
Percentages	27%	21%	36%	15%	1%

Source: Anonymous visits performed by TIGTA auditors.

⁸ Percentages do not add to 100 percent due to rounding.

Management Advisory Report: Taxpayers Continue to Receive Incorrect Answers to Some Tax Law Questions

Accommodations at Taxpayer Assistance Centers Could Be Improved

During our visits, we assessed the adequacy of accommodations in the TACs, including items such as space and privacy. We also determined if the correct office hours were posted in the TACs.

We determined that taxpayer privacy was not always protected. In 28 (76 percent) of the 37 TACs visited, the floor plan did not allow for taxpayer privacy. If several taxpayers were in line waiting for service, the next person in line could easily overhear the conversation between the IRS employee and the taxpayer being served. For example:

- A taxpayer's Social Security Number (SSN) was overheard. The IRS employee asked the taxpayer to give his SSN and the TIGTA auditor waiting for service was able to hear the SSN.
- A taxpayer's SSN was seen when the IRS employee placed a check made out to the IRS down on the desk.

We were unable to compare office hours posted on the IRS website with those posted at the TACs for 12 (32 percent) of the 37 TACs visited.⁹ For 16 (43 percent) of the 37 TACs visited, posted office hours were not the same as the office hours shown on the IRS website. For example:

- One (3 percent) of the 37 TACs had office hours posted that showed the site was open on Saturdays. However, Saturday office hours for this TAC site were not posted on the IRS website.
- One (3 percent) of the 37 TACs had Saturday office hours posted on the IRS website, but the office hours posted at the TAC site did not show that the site was open on Saturdays.

Also, we determined that thirty-seven (100 percent) of the TACs visited were clean and 35 (95 percent) were organized. The table below shows a breakdown of our TAC site accommodation results.

⁹ Eleven of the TACs did not have office hours posted on the IRS website and one site did not have hours posted at the TAC.

Management Advisory Report: Taxpayers Continue to Receive Incorrect Answers to Some Tax Law Questions

TAC SITE ACCOMMODATIONS (37 TACs visited)		
	Occurrences	Percent
TAC Site Office Address Correct	37	100
TAC Site Office Hours Correct ¹⁰	9	24
TAC Site Clean	37	100
TAC Site Organized ¹¹	35	95
TAC Site Space Adequate ¹²	9	24
TAC Site With Security ¹³	10	27

Source: Anonymous visits performed by TIGTA auditors.

Auditors Had Positive Experiences When They Visited Taxpayer Assistance Centers

During our visits to the TACs, we assessed whether IRS employees were professional and courteous. We also assessed the wait time for service and the cleanliness of the TAC. We had some positive experiences. For example:

- The IRS employees assisting us were professional and courteous in 71 (97 percent) of the 73 visits.
- The wait time for service was 30 minutes or less in 66 (90 percent) of the 73 visits.

The table below shows a breakdown of our quality of assistance results.

¹⁰ Hours posted at the TAC site matched the hours posted on the IRS website.

¹¹ The TACs were considered organized if they were free from clutter, publications/forms were in the correct bins, correct signs directed taxpayers to the appropriate areas for assistance, and chairs were neatly arranged.

¹² The TACs' space was considered inadequate if taxpayer privacy was a concern or the space could not accommodate the number of taxpayers in the TAC at the time of the auditor's visit.

¹³ The TACs had security personnel on site.

**Management Advisory Report: Taxpayers Continue to Receive
Incorrect Answers to Some Tax Law Questions**

QUALITY OF ASSISTANCE—WAIT TIME (73 TAC visits, 2 auditors per site)		
	Occurrences	Percent¹⁴
0 to 15 Minutes	60	82
16 to 30 Minutes	6	8
31 to 45 Minutes	1	1
46 Minutes to One Hour	0	---
Greater Than One Hour	6	8

Source: Anonymous visits performed by TIGTA auditors.

QUALITY OF ASSISTANCE—MISCELLANEOUS (73 TAC visits, 2 auditors per site)		
	Occurrences	Percent
Employee Name Given/Visible	62	85
Employee ID Number Given/Visible	61	84
Employee Name <u>Not</u> Provided When Requested	0	---
Employee Professional/Courteous	71	97

Source: Anonymous visits performed by TIGTA auditors.

¹⁴ Percentages do not add to 100 percent due to rounding.

Management Advisory Report: Taxpayers Continue to Receive Incorrect Answers to Some Tax Law Questions

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of the review was to determine if the Internal Revenue Service (IRS) provides accurate and timely responses to taxpayers' tax law questions. In addition, we assessed whether IRS employees in the Taxpayer Assistance Centers (TACs) were professional and courteous to our auditors who made anonymous visits to the TACs. We also evaluated the adequacy of the accommodations for items such as space, privacy, and cleanliness, and determined if the correct office hours were posted in the TACs.

To achieve this objective, we performed the following tests.

- I. Determined if the IRS provided quality service and accurate responses to tax law inquiries at the TACs. We asked 146 tax law questions that an individual taxpayer¹ might ask. The 146 questions included 73 questions that are being used by the IRS' contractor. We developed the remaining questions based on the training provided to Tax Resolution Representatives (TRR) during the fall of 2001 and the scope of services for tax law assistance prescribed in the FY 2002 Field Assistance Operating Procedures.
- II. Determined the quality of service provided by the TRR.
- III. Determined if accommodations in the TACs visited were suitable to provide quality customer service.

¹ Individual taxpayers are non-business taxpayers who file United States Individual Income Tax Returns (Forms 1040, 1040A, or 1040EZ).

**Management Advisory Report: Taxpayers Continue to Receive
Incorrect Answers to Some Tax Law Questions**

Appendix II

Major Contributors to This Report

Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs)
Kerry Kilpatrick, Director
Deborah Glover, Audit Manager
Russell Martin, Audit Manager
Pamela DeSimone, Senior Auditor
Deborah Drain, Senior Auditor
John Hawkins, Senior Auditor
Robert Howes, Senior Auditor
Kathy Hughes, Senior Auditor
Frank Jones, Senior Auditor
Edith Lemire, Senior Auditor
John Piecuch, Senior Auditor
Robert Baker, Auditor
Lena Dietles, Auditor
Roberta Fuller, Auditor
Kathy Henderson, Auditor
Mary Keyes, Auditor
Grace Terranova, Auditor

**Management Advisory Report: Taxpayers Continue to Receive
Incorrect Answers to Some Tax Law Questions**

Appendix III

Report Distribution List

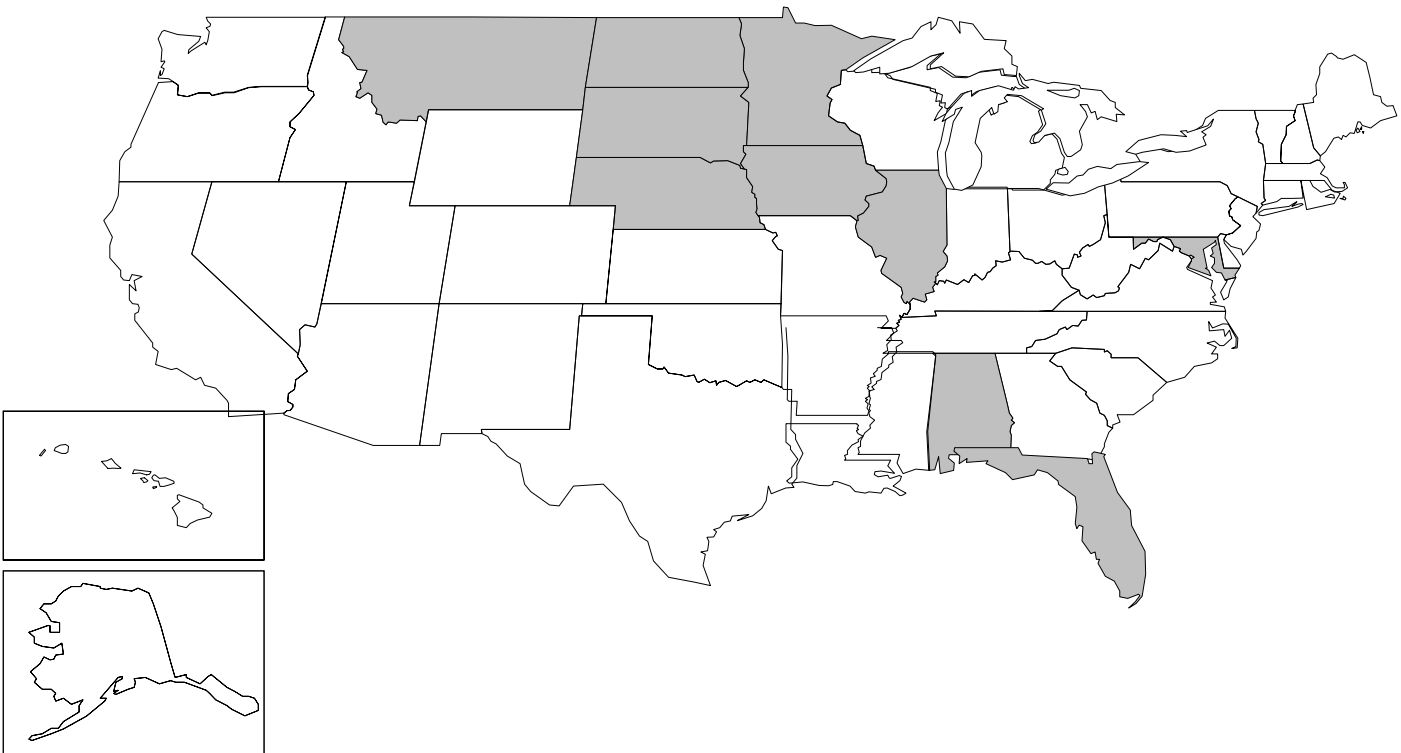
Commissioner N:C
Deputy Commissioner N:DC
Director, Customer Assistance, Relationships, and Education W:CAR
Director, Field Assistance W:CAR:FA
Director, Strategy and Finance W:S
Chief Counsel CC
National Taxpayer Advocate TA
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management Controls N:CFO:F:M

**Management Advisory Report: Taxpayers Continue to Receive
Incorrect Answers to Some Tax Law Questions**

Appendix IV

States Visited During March and April 2002

We visited Washington, D.C., and ten states, including: Alabama, Florida, Illinois, Iowa, Maryland, Minnesota, Montana, Nebraska, North Dakota, South Dakota.



**Management Advisory Report: Taxpayers Continue to Receive
Incorrect Answers to Some Tax Law Questions**

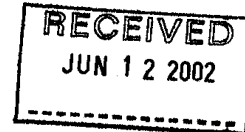
Appendix V

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

June 10, 2002



MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR
TAX ADMINISTRATION

FROM:

John M. Dalrymple
John M. Dalrymple
Commissioner, Wage and Investment Division

SUBJECT:

Draft Management Advisory Report – Taxpayers Continue to
Receive Incorrect Answers to Some Tax Law Questions
(Audit # 200240036)

I am responding to your discussion draft report on our response to tax law questions in Taxpayer Assistance Centers (TAC). As we continue working with our employees to improve tax law accuracy, we are also ensuring we post TAC office hours to our website. We are also working within the constraints of our current office configurations to protect taxpayer privacy.

Based on your March and April visits to 37 TAC offices, we continue to show improvements in providing correct answers to tax law questions. However, I believe the statistics cited in your report do not reflect the accuracy of our answers. As previously discussed, I do not agree that referrals to publications should be included in computing the accuracy rate and disagree with your assertion that it is the same as providing an incorrect answer. Therefore, our accuracy rate should be 65 percent as opposed to the 55 percent identified in your report.

The report notes that TAC office hours were different from information on the *irs.gov* website. We are working with the Internet content owner to streamline and perfect the update process. We have designed a separate link on *irs.gov* that will bring together TAC locations/hours, and local telephone numbers into one consolidated posting and will replace the out-dated "Around the Nation" link. We expect to add this link on June 30, 2002.

In addition, the report states that in 28 of the 37 TACs you visited, taxpayer privacy was not adequate. We recognize the need to improve privacy. The estimated funding to renovate and install the required furniture is nearly \$100 million. Based on your suggestion after your January to February review, we recently told our employees to

Management Advisory Report: Taxpayers Continue to Receive Incorrect Answers to Some Tax Law Questions

2

ask taxpayers to write their EIN/SSN rather than say it. This change in procedure helps reduce inadvertent disclosures in offices where individuals can overhear conversations.

If you have any questions or need additional information, please contact Jerald Heschel, Director, Field Assistance, W&I CARE, at (404) 338-7107.